

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Kent County Road Commission</u>	County Kent
Audit Date December 31, 2006	Opinion Date March 9, 2006	Date Accountant Report Submitted To State: March 28, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

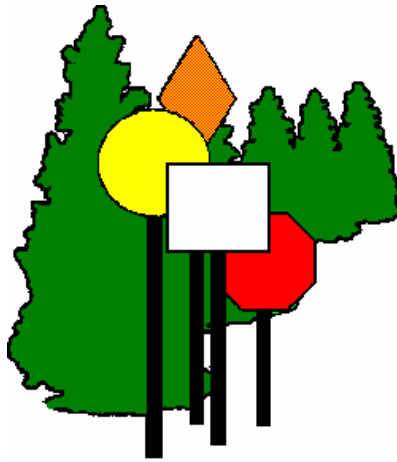
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 333 Bridge Street NW	City Grand Rapids	State MI	ZIP 49504
Accountant Signature  <i>Plante &amp; Moran, PLLC</i>			



# **Kent County Road Commission**

**(a component unit of Kent County)**

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**Financial Report**  
**with Supplementary Information**  
**December 31, 2005**

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moran

# Kent County Road Commission

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## Independent Auditor's Report

To the Board of Road Commissioners  
Kent County Road Commission

We have audited the accompanying basic financial statements of the Kent County Road Commission (a component unit of Kent County, Michigan) as of and for the year ended December 31, 2005, as listed in the table of contents. These basic financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Kent County Road Commission at December 31, 2005 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

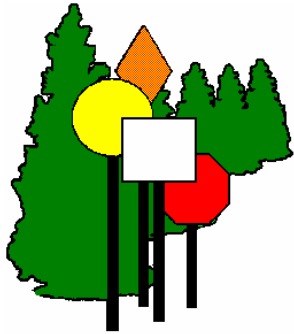
The management's discussion and analysis and the required supplementary information presented on pages 3 through 7 and pages 25 through 27, respectively, are not required parts of the basic financial statements, but are supplemental information required by the *Governmental Accounting Standards Board*. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Road Commissioners  
Kent County Road Commission

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Kent County Road Commission. This information has been subjected to the procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

March 9, 2006



## **Board of County Road Commissioners of the County of Kent**

1500 Scribner Ave., N.W. Grand Rapids, MI 49504-3299  
(616) 242-6900 Fax # (616) 242-6980

**Chairman**  
Dale H. Sommers  
**Vice-Chairman**  
John W. Weiss  
**Commissioner**  
Mark C. Jansen  
**Managing Director**  
Jon F. Rice, P.E.  
**Director of Finance**  
John L. Strauss

### **Management's Discussion and Analysis**

This section of the Kent County Road Commission's (the "Road Commission") annual financial report presents our discussion and analysis of the Road Commission's financial performance during the fiscal year that ended on December 31, 2005. Please read it in conjunction with the Road Commission's basic financial statements, which follow this section.

#### **Financial Highlights**

- The Road Commission's total net assets increased by \$12 million.
- During the year, unrestricted net assets decreased by \$2.3 million.
- Total revenue sources for the year of \$52 million exceeded expenditures of \$45 million by \$7 million.
- \$32 million was invested in capital assets during the year.
- \$5 million of infrastructure was contributed.

#### **Overview of the Financial Statements**

This annual report consists of four parts - management's discussion and analysis (this section), the basic financial statements, required supplementary information, and other supplementary information.

The financial statements also include notes that explain some of the information in the financial statements and provide more detail data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with more detail regarding administrative expenditures, distributive expenditures, and Road Fund balances.

# Kent County Road Commission

## Management's Discussion and Analysis (Continued)

### Financial Analysis of the Road Commission as a Whole

#### Net Assets

The Road Commission's combined net assets increased during 2005 by approximately \$12 million, ending the year at \$270 million. Table I below shows the composition of the Road Commission's net assets at December 31, 2005.

TABLE I

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
	(in thousands)	
<b>Assets</b>		
Current and other assets	\$ 20,060	\$ 20,272
Capital assets	<u>258,713</u>	<u>244,458</u>
Total assets	278,773	264,730
<b>Liabilities</b>		
Long-term liabilities	3,520	3,833
Other liabilities	<u>5,075</u>	<u>2,692</u>
Total liabilities	<u>8,595</u>	<u>6,525</u>
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	258,713	244,458
Unrestricted	<u>11,465</u>	<u>13,747</u>
Total net assets	<u><b>\$ 270,178</b></u>	<u><b>\$ 258,205</b></u>

### Changes in Net Assets

The Road Commission's change in net assets was a combination of various revenue sources and expense categories as shown in Table 2.

The Michigan Transportation Fund revenue is the result of a statutory formula that is structured to share various fuel taxes and license fees collected by the State of Michigan with cities, road commissions, and the Michigan Department of Transportation. This revenue item is the primary source of revenue for the Road Commission. For 2005, there was a 3.8 percent decrease in receipts received from the State of Michigan for motor fuel taxes and weight taxes. Federal and state aid decreased from the 2004 level by approximately \$5 million driven by the completion of projects that were partially funded by grants.

# Kent County Road Commission

## Management's Discussion and Analysis (Continued)

Overall, expenditures increased by nearly \$3 million over last year for maintenance, including activities on all local, primary, and state trunkline roads.

TABLE 2

	Governmental Activities	
	2005	2004
	(in thousands)	
<b>Revenue</b>		
Michigan Transportation Fund	\$ 29,820	\$ 30,966
State trunkline maintenance	6,884	5,393
Federal and state aid	8,328	13,326
Contributions for work performed for others	5,497	5,393
Contributions for construction of facilities	631	1,194
Interest	437	360
Gain on sale of assets	326	206
Property rentals	139	130
Miscellaneous	1	3
Total revenue	52,063	56,971
<b>Expenses</b>		
Maintenance	26,499	23,857
Equipment	5,917	5,443
Less equipment rentals charged to other expenditures	(7,390)	(7,422)
Administrative	513	1,249
Work performed for units of government and other	2,552	1,596
Depreciation and depletion	17,254	17,501
Interest	-	16
Total expenses	45,345	42,240
<b>Contribution of Infrastructure</b>	5,255	12,799
<b>Change in Net Assets</b>	<b>\$ 11,973</b>	<b>\$ 27,530</b>

### Financial Analysis of Road Commission's Funds

The fund balance of the unrestricted governmental fund - Road Fund ended the year at \$12 million, which is approximately \$2.5 million less than the previous year.



# Kent County Road Commission

## Management's Discussion and Analysis (Continued)

### Road Fund Budgetary Highlights

The Road Commission amended its 2005 budgeted revenue upward by only \$325,000 as most items were expected to come very close to original expectations. The revenue results of \$52 million were \$3 million short of the budgeted amount of \$55 million. This revenue shortfall was a combination of \$1 million of work not performed for others and \$2 million of Federal and State Aid not realized.

The expenditure budget was increased by \$173 thousand and came in at \$2.5 million under budget due to construction being under budget by more than \$3 million. This is due to Primary Construction projects not completed as discussed in the paragraph above. Instead, money was spent on Primary Preservation projects, which exceeded the \$10.3 million amended budget by \$832,000. Also, the State trunkline expenditures exceeded the amended budget by \$654,000 due to maintenance demands by the State and the Road Commission was compensated for the additional amount resulting in a neutral affect on the fund balance. Other smaller variances are the remaining portion of the favorable variance.

### Capital Assets

The Road Commission had approximately \$259 million in capital assets (net of depreciation) at the end of the year, which was an increase of \$14 million from 2004. The infrastructure amount includes expenditures since 1980.

	Governmental Activities	
	2005	2004
	(in thousands)	
Land and land improvements	\$ 2,378	\$ 2,378
Buildings	7,673	8,073
Road equipment	3,925	3,607
Shop equipment	188	185
Nonrental equipment	7	6
Office equipment	33	51
Engineering equipment	28	30
Gravel pits	1	1
Yard and storage bins	1,030	1,149
Infrastructure	243,450	228,979
Total	<u>\$ 258,713</u>	<u>\$ 244,459</u>

# **Kent County Road Commission**

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## **Management's Discussion and Analysis (Continued)**

Infrastructure improvements during the year involved constructing or reconstructing roads, bridges, or intersections. The various townships within the County of Kent participated in work done on the local system. During the year, more than 125 miles of road improvements were made and were evenly divided between primary roads and local roads. The eight safety improvements to intersections that were done during the year were on the primary road system.

### **Economic Factors and Next Year's Budget**

The unfavorable economic conditions continue within the State of Michigan causing a 1.7 percent reduction in the anticipated Michigan Transportation Funds (MTF) for 2006 compared to 2005.

World political and economic conditions may affect crude oil supplies and prices that could affect the Road Commission's cost of fuel for operation and asphalt paving prices. A significant cost increase in these commodities may result in a shift in priorities and project deferrals.

### **Contacting the Road Commission's Financial Management**

The financial report is designed to provide a general overview of the Road Commission's finances and accountability of the public trust. Questions regarding any of the information provided in this report or requests for additional information should be addressed to the Director of Finance, Kent County Road Commission, 1500 Scribner Ave., N.W., Grand Rapids, Michigan 49504 or visit us on the Web at: [www.KentCountyRoads.net](http://www.KentCountyRoads.net).

# Kent County Road Commission

## Governmental Fund Balance Sheet - Statement of Net Assets December 31, 2005

	Governmental Fund - Road Fund	Adjustments (Note 2)	Statement of Net Assets
<b>Assets</b>			
Cash, cash equivalents, and investments held by the Treasurer of the County of Kent (Note 3)	\$ 10,282,386	\$ -	\$ 10,282,386
Accounts receivable	8,036,040	-	8,036,040
Inventory	1,441,768	-	1,441,768
Prepaid expenses and other assets	299,692	-	299,692
Capital assets - Net (Note 4):			
Assets being depreciated	-	256,335,458	256,335,458
Assets not being depreciated	-	2,377,571	2,377,571
Total assets	<b>\$ 20,059,886</b>	258,713,029	278,772,915
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 2,687,957	-	2,687,957
Advances	1,130,737	-	1,130,737
Accrued liabilities and other	1,256,356	-	1,256,356
Other long-term liabilities (Note 5)	-	3,519,552	3,519,552
Total liabilities	5,075,050	3,519,552	8,594,602
<b>Fund Balances - Unreserved</b>			
Reserved for inventory and prepaid expenses	1,741,460	(1,741,460)	-
Designated for road projects	1,200,000	(1,200,000)	-
Undesignated	12,043,376	(12,043,376)	-
Total fund balances	14,984,836	(14,984,836)	-
Total liabilities and fund balances	<b>\$ 20,059,886</b>		
<b>Net Assets</b>			
Invested in capital assets		258,713,029	258,713,029
Unrestricted		11,465,284	11,465,284
Total net assets		<b>\$ 270,178,313</b>	<b>\$ 270,178,313</b>

# Kent County Road Commission

## Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance - Statement of Activities Year Ended December 31, 2005

	Governmental Fund - Road Fund	Adjustments (Note 2)	Statement of Activities
<b>Revenue</b>			
Michigan Transportation Fund:			
Primary road system	\$ 24,356,670	\$ -	\$ 24,356,670
Local road system	5,463,263	-	5,463,263
State trunkline maintenance	6,884,095	-	6,884,095
Federal and state aid	8,327,998	-	8,327,998
Contributions for work performed for others	5,496,579	-	5,496,579
Contributions for construction of facilities	631,008	-	631,008
Interest and rentals	437,529	-	437,529
Proceeds from sale of fixed assets	354,718	(354,718)	-
Gain on sale of assets	-	326,358	326,358
Property rentals	139,038	-	139,038
Total revenue	52,090,898	(28,360)	52,062,538
<b>Expenditures</b>			
Current:			
Construction:			
Primary	8,345,418	(8,345,418)	-
Preservation:			
Primary	11,160,076	(11,160,076)	-
Local	4,951,802	(4,951,802)	-
Maintenance:			
Primary	8,559,865	-	8,559,865
Local	10,325,277	-	10,325,277
State trunkline maintenance	7,614,031	-	7,614,031
Equipment:			
Direct	3,996,417	(1,449,963)	2,546,454
Indirect	2,483,947	(407,834)	2,076,113
Operating	1,294,613	-	1,294,613
Capital outlay	1,865,226	(1,865,226)	-
Less equipment rentals charged to other expenditures	(7,390,388)	-	(7,390,388)
Administrative	934,652	(421,325)	513,327
Work performed for local units of government and others	2,552,030	-	2,552,030
Depreciation and depletion	(2,018,132)	19,271,806	17,253,674
Total expenditures	54,674,834	(9,329,838)	45,344,996
<b>Contribution of Infrastructure</b>	-	5,255,441	5,255,441
<b>Change in Fund Balance/Net Assets</b>	(2,583,936)	14,556,919	11,972,983
<b>Fund Balance/Net Assets - Beginning of year</b>	17,568,772	240,636,558	258,205,330
<b>Fund Balance/Net Assets - End of year</b>	<b>\$ 14,984,836</b>	<b>\$ 255,193,477</b>	<b>\$ 270,178,313</b>

# Kent County Road Commission

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## Statement of Fiduciary Net Assets Employees' Pension Trust Fund December 31, 2005

### Assets

Cash	\$ 18,450
Investments - At fair value:	
Bond mutual funds	223,873
Stock mutual funds	333,517
Other	<u>1,160</u>
Total investments	<u>558,550</u>

**Net Assets** - Held in trust for pension benefits \$ 577,000

# Kent County Road Commission

## Statement of Changes in Fiduciary Net Assets Employees' Pension Trust Fund Year Ended December 31, 2005

### Additions

Investment income:	
Interest and dividends	\$ 21,131
Net appreciation in fair value of investments	<u>11,649</u>
Net investment income	32,780
Employer contributions	<u>13,184</u>
Total additions	45,964

### Deductions

Benefit payments	113,591
Administrative expenses	<u>5,373</u>
Total deductions	<u>118,964</u>

**Change in Net Assets** (73,000)

**Net Assets - Beginning of year** 650,000

**Net Assets - End of year** \$ 577,000

# Kent County Road Commission

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## Notes to Financial Statements December 31, 2005

### **Note 1 - Significant Accounting Policies**

The Road Commission of the County of Kent, Michigan (the "Road Commission") is a governmental agency responsible for the maintenance and construction of the road system in the County of Kent, Michigan (the "County"). The Road Commission's financial statements will be included in the basic financial statements of the County as a discretely presented component unit.

The accounting policies of the Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

#### **Basic Financial Statements - Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Road Commission. The Road Commission consists solely of governmental-type activities; no business-type activities exist.

The fund financial statements are provided for governmental funds and have been separately stated in conjunction with the government-wide financial statements.

The Road Commission is comprised of a single governmental fund.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Road Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenue related to construction projects and inspection work orders is recognized when the related costs are incurred, subject to the availability criterion. Other revenue is recorded when received.

# Kent County Road Commission

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## Notes to Financial Statements December 31, 2005

### **Note 1 - Significant Accounting Policies (Continued)**

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due. Interest earned on investments is recorded on the accrual basis. In addition, the Road Commission reports the Employees' Pension Trust Fund as a fiduciary fund. The Employees' Pension Trust Fund accumulates resources for pension benefit payments to qualified retirees or beneficiaries.

**Cash, Cash Equivalents, and Investments** - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are reported at fair value, based on quoted market prices.

**Accounts Receivable** - Accounts receivable are primarily amounts due from other units of government. The Road Commission has not recorded a provision for doubtful accounts receivable since it is the opinion of management that those receivables are collectible in full.

**Inventory and Prepaid Items** - Inventory, principally consisting of road material, salt, signs, and equipment maintenance materials, is valued at average cost. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.



# Kent County Road Commission

## Notes to Financial Statements December 31, 2005

### Note 1 - Significant Accounting Policies (Continued)

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Road Commission as all land evidenced by a deed, buildings and building improvements with a minimum cost of \$5,000 and \$2,500, respectively, all infrastructure, all licensed and road maintenance equipment, computers and computer software costing more than \$1,000 and \$2,500, respectively, and all other equipment with a minimum cost of \$2,500. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are valued at estimated fair market value at the date of donation. Capital assets are depreciated using the straight-line or units of production methods over the following useful lives:

	Useful Life - Years
Buildings and storage bins	25-50
Gravel pits	Various
Equipment	3-8
Roads	8-20
Other infrastructure	20-40

**Advances and Deferred Revenue** - Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the year, all advances were unearned.

**Compensated Absences (Vacation and Sick Leave)** - It is the Road Commission's policy to allow employees to accumulate earned but unused sick and vacation pay benefits. The Road Fund recognizes the expenditure when the obligations come due for payment; the statement of net assets and the statement of activities recognize the expense at the time the hours are earned by the employees.

**Fund Equity** - In the fund financial statements, governmental funds report designations of fund balance for amounts that represent management's tentative plans, which are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting procedures generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenditures at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

# Kent County Road Commission

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## Notes to Financial Statements December 31, 2005

### Note 1 - Significant Accounting Policies (Continued)

Other accounting policies are disclosed in the following notes to the financial statements.

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2007.

# Kent County Road Commission

## Notes to Financial Statements December 31, 2005

### Note 2 - Reconciliation of Government-wide and Fund Financial Statements

Amounts reported in the government-wide financial statements are different from amounts reported in the governmental funds because of the following:

<b>Governmental Fund - Fund Balance</b>	\$ 14,984,836
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Capital assets used in governmental activities are not financial resources and are not reported in the governmental fund	258,713,029
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Compensated absences are not reported in the governmental fund	<u>(3,519,552)</u>
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<b>Net Assets - Governmental Activities</b>	<u><u>\$ 270,178,313</u></u>
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<b>Net Change in Fund Balance - Total Governmental Funds</b>	\$ (2,583,936)
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The governmental fund reports capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	9,027,554
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Contributions of infrastructure are recorded in the statement of activities, but are not recorded in the governmental fund	5,255,441
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In the statement of activities, only the gain on the sale of capital assets is reported, whereas in the governmental fund, the proceeds from the sale are reported. Therefore, the change in net assets differs from the change in fund balance by the net book value of the assets sold	(28,360)
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Increases in accumulated employee sick and vacation pay are recorded when earned in the statement of activities	(18,901)
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Decrease in net pension asset from prior year	(11,225)
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Write down of estimated workers' compensation and health liability on the statement of activities	<u>332,410</u>
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<b>Change in Net Assets of Governmental Activities</b>	<u><u>\$ 11,972,983</u></u>
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# Kent County Road Commission

## Notes to Financial Statements December 31, 2005

### Note 3 - Cash, Cash Equivalents, and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Road Commission is allowed to invest surplus monies (of nonpension funds) in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; and mutual funds and investment pools that are composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Employees' Pension Trust Fund is authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The Road Commission participates in the Money Max Cash Management System of the County of Kent (a pooled investment fund created in accordance with Michigan Public Act 20 of 1943, as amended). The Road Commission's cash, cash equivalents, and investments during the year consisted solely of the above-mentioned pooled cash management fund. Since the monies are pooled for investment purposes with other County of Kent surplus monies, it is not possible to segregate the fund between cash, cash equivalents, and investments. The Road Commission believes that the investments in this fund comply with the applicable State of Michigan regulations.

The Road Commission's investments are subject to certain risks, which are examined in more detail below:

#### Interest Rate Risk

Interest Rate Risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Road Commission's investment policy does not restrict investment maturities.

	Fair Value	Less than One Year	1-5 Years
<b>Governmental Activities</b>			
Pooled investment fund	\$ 10,282,386	\$ 9,238,770	\$ 1,043,616
<b>Employees' Pension Trust Fund</b>			
Bond mutual funds	223,873	223,873	-

# Kent County Road Commission

## Notes to Financial Statements December 31, 2005

### Note 3 - Cash, Cash Equivalents, and Investments (Continued)

#### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Road Commission has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U. S. government) are as follows:

	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
<b>Governmental Activities</b>			
Pooled investment fund	\$ 10,282,386	Not rated	-
<b>Employees' Pension Trust Fund</b>			
Bond mutual funds	223,873	Not rated	-

# Kent County Road Commission

## Notes to Financial Statements December 31, 2005

### Note 4 - Capital Assets

Capital asset activity for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land and land improvements	\$ 2,377,571	\$ -	\$ -	\$ 2,377,571
Capital assets being depreciated:				
Buildings	11,641,649	-	-	11,641,649
Road equipment	15,123,360	1,796,089	1,064,389	15,855,060
Shop equipment	515,243	28,570	-	543,813
Nonrental equipment	60,320	2,595	-	62,915
Office equipment	536,598	-	-	536,598
Engineering equipment	268,629	3,109	-	271,738
Gravel pits	102,986	-	-	102,986
Yard and storage bins	1,980,475	-	-	1,980,475
Infrastructure	413,381,123	29,706,306	53,595,970	389,491,459
Subtotal	443,610,383	31,536,669	54,660,359	420,486,693
Less accumulated depreciation for:				
Buildings	(3,567,943)	(399,848)	-	(3,967,791)
Road equipment	(11,516,381)	(1,449,881)	(1,036,029)	(11,930,233)
Shop equipment	(330,648)	(24,839)	-	(355,487)
Nonrental equipment	(54,741)	(1,123)	-	(55,864)
Office equipment	(485,154)	(18,469)	-	(503,623)
Engineering equipment	(238,982)	(4,958)	-	(243,940)
Gravel pits	(102,460)	-	-	(102,460)
Yard and storage bins	(831,122)	(119,015)	-	(950,137)
Infrastructure	(184,402,129)	(15,235,541)	(53,595,970)	(146,041,700)
Subtotal	(201,529,560)	(17,253,674)	(54,631,999)	(164,151,235)
Net capital assets being depreciated	242,080,823	14,282,995	28,360	256,335,458
Net capital assets	\$ 244,458,394	\$ 14,282,995	\$ 28,360	\$ 258,713,029

Infrastructure assets include roads, bridges, drainage structures, traffic signals, etc. These infrastructure assets are the largest asset class of the Road Commission.

# Kent County Road Commission

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## Notes to Financial Statements December 31, 2005

### **Note 5 - Other Long-term Liabilities**

#### **Insurance Programs**

The Road Commission is exposed to various risks related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for coverage of employees' health claims and participates in the Michigan County Road Commission Self-insurance Pool for claims relating to general and auto liability insurance. As a member of the pool, the Road Commission is partially uninsured for general and auto liability, with maximum losses per occurrence of \$25,000 and \$1,000, respectively, and no limit in the aggregate. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past fiscal years.

Effective January 1, 2000, the Road Commission became a member of the County Road Association Self-insurance Fund. As a member of the fund, the Road Commission is fully insured for workers' compensation claims incurred on or after January 1, 2000. The amount of any remaining claims incurred and not reported in 1999 or before is estimated to be insignificant.

The Road Commission is also self-insured for dental claims. The Road Commission estimates the liability for dental claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not been reported. The estimated liability is insignificant and has not been recorded on the accompanying financial statements.

#### **Compensated Absences**

The compensated absences liability represents the estimated liability to be paid employees under the Road Commission's leave policies. Under the Road Commission's policy, union and nonunion employees earn sick and vacation time based on time of service with the Road Commission. Total estimated compensated absences as of December 31, 2005 are \$3,519,552.

# Kent County Road Commission

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## Notes to Financial Statements December 31, 2005

### Note 6 - Operating Leases

The Road Commission leases road equipment under several operating leases. The following is a schedule of future lease payments as of December 31, 2005:

2006	\$ 265,303
2007	219,963
2008	153,043
2009	28,680
2010	26,290

The Road Commission also leases equipment, as needed, on a month-to-month basis. Total rent expense was approximately \$462,000 for 2005.

### Note 7 - Contingent Liability - Lawsuits

Numerous lawsuits against the Road Commission are pending at December 31, 2005. These lawsuits have not yet progressed to the point where a legal opinion can be reached as to the ultimate liability, if any, which may result from the resolution of these cases. However, it is the opinion of management that the ultimate liability in excess of the amount provided for at December 31, 2005, if any, would be immaterial to the Road Commission's financial statements.

### Note 8 - Budget Information

The annual budget is prepared by the Road Commission management and adopted by the Board of Road Commissioners; subsequent amendments are approved by the Board of Road Commissioners. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the Road Fund budget as adopted by the Board of Road Commissioners is available at the Road Commission offices for inspection.



# Kent County Road Commission

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## Notes to Financial Statements December 31, 2005

### Note 9 - Pension Plans

During a prior year, all active employees in the various defined benefit pension plans elected to terminate their participation in the plans and transfer their interests into a defined contribution pension plan. The Road Commission currently maintains a defined benefit pension plan for individuals who retired before formation of the defined contribution plan. This single plan is the result of a merger of the former plans. Information relative to both plan types is as follows:

#### **Defined Contribution Pension Plan**

The Road Commission provides pension benefits to all its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Employees are eligible to participate from the date of employment. As established by Board resolution, the Road Commission contributes up to 6 percent of employees' gross earnings. In accordance with these requirements, the Road Commission contributed approximately \$747,000 for 2005.

#### **Defined Benefit Pension Plan**

##### **Plan Description**

As noted above, the Road Commission maintains the Employees' Pension Trust Fund, which is a single-employer defined benefit pension plan that provides retirement and death benefits to retirees and their beneficiaries. LaSalle Bank serves as trustee of the plan. At December 31, 2005, membership in the plan consisted of 26 retirees and beneficiaries currently receiving benefits. The plan does not issue a separate financial report.

##### **Contributions**

Employer contributions to the plan are recognized when due and when the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

Due to the current status of the plan, the only obligation of the employer is to fund any unfunded actuarial accrued liability. Administrative costs of the plan are financed through investment earnings.

# Kent County Road Commission

## Notes to Financial Statements December 31, 2005

### Note 9 - Pension Plans (Continued)

#### Annual Pension Cost

For the year ended December 31, 2005, the Road Commission's annual pension cost of \$13,184 for the plan was equal to the Road Commission's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at January 1, 2004, using the entry age actuarial cost method.

In the most recent actuarial valuation dated January 1, 2006, an unfunded actuarial accrued liability (UAAL) of \$105,252 was calculated. The actuary recommended a level annual payment of \$15,685 over 10 years, beginning in 2006, to provide the funds necessary to eliminate the UAAL. The recommendation was determined using the aggregate actuarial cost method. A significant actuarial assumption of an 8 percent investment rate of return was used in the valuation. In addition, the actuarial value of assets was determined using techniques that smooth the effects of short-term volatility.

#### Reserves

As of December 31, 2005, amounts held by the plan are reserved entirely for retired benefit payments.

#### Three-year Trend Information

	Fiscal Year Ended December 31		
	2005	2004	2003
Annual pension cost (APC)	\$ 13,184	\$ 13,184	\$ 24,200
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

### Note 10 - Postemployment Benefits

The Road Commission provides health care benefits to certain salaried employees upon retirement, in accordance with Road Commission policy. Currently, 45 retirees are eligible. The Road Commission includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participants. The Road Commission purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due. This amounted to approximately \$209,000 for 2005.

# **Kent County Road Commission**

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## **Notes to Financial Statements December 31, 2005**

### **Note 11 - Contract Obligations**

Estimated future contract obligations related to completion of Road Fund construction projects in process at December 31, 2005, net of estimated revenue from federal aid and contributions from participating communities, total approximately \$380,000. The total remaining cost of these uncompleted projects will exceed the above estimated future contract costs due to inspection costs and other non-contracted services. It is anticipated that a significant portion of such additional costs will be shared with other governmental units and that the Road Commission's share of these costs will not be material in amount.

## **Required Supplementary Information**

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# Kent County Road Commission

## Required Supplementary Information Budgetary Comparison Schedule - Road Fund Year Ended December 31, 2005

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenue</b>				
Michigan Transportation Fund:				
Primary road system	\$ 19,896,100	\$ 24,435,000	\$ 24,356,670	\$ (78,330)
Local road system	10,855,900	5,365,000	5,463,263	98,263
State trunkline maintenance	5,856,000	6,299,000	6,884,095	585,095
Federal and state aid	10,243,124	10,525,000	8,327,998	(2,197,002)
Contributions for work performed for others	6,804,680	6,900,000	5,496,579	(1,403,421)
Contributions for facilities construction	315,504	631,008	631,008	-
Interest	379,000	430,000	437,529	7,529
Proceeds from sale of fixed assets	222,000	298,981	354,718	55,737
Property rentals	128,000	139,000	139,038	38
Miscellaneous	3,800	7,000	-	(7,000)
Total revenue	54,704,108	55,029,989	52,090,898	(2,939,091)
<b>Expenditures</b>				
Current:				
Construction:				
Primary	12,570,000	11,297,906	8,345,418	2,952,488
Preservation:				
Primary	10,327,000	10,327,949	11,160,076	(832,127)
Local	5,818,000	5,473,322	4,951,802	521,520
Maintenance:				
Primary	8,726,000	8,902,694	8,559,865	342,829
Local	10,046,900	10,263,705	10,325,277	(61,572)
State trunkline maintenance	6,500,000	6,960,000	7,614,031	(654,031)
Equipment:				
Direct	3,856,000	3,878,590	3,996,417	(117,827)
Indirect	2,767,863	2,482,095	2,483,947	(1,852)
Operating	944,700	1,296,305	1,294,613	1,692
Capital outlay	1,950,805	1,950,805	1,865,226	85,579
Less equipment rentals charged to other expenditures	(7,568,563)	(7,200,000)	(7,390,388)	190,388
Administrative	1,145,530	1,032,498	934,652	97,846
Work performed for units of government and others	1,777,000	2,563,051	2,552,030	11,021
Less provision for depreciation and depletion	(1,815,000)	(2,009,553)	(2,018,132)	8,579
Total expenditures	57,046,235	57,219,367	54,674,834	2,544,533
<b>Excess of Expenditures Over Revenue</b>	<b>\$ (2,342,127)</b>	<b>\$ (2,189,378)</b>	(2,583,936)	<b>\$ (394,558)</b>
<b>Fund Balance - Beginning of year</b>			17,568,772	
<b>Fund Balance - End of year</b>			<b>\$ 14,984,836</b>	

# Kent County Road Commission

## Required Supplementary Information Employees' Pension Trust Fund Analysis of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (B)	Unfunded AAL (UAAL) (A-B)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll
01/01/00	\$ 500,400	\$ 1,000,600	\$ (500,200)	50%	*	*
01/01/02	747,700	910,200	(162,500)	82%	*	*
01/01/04	710,000	798,400	(88,400)	89%	*	*
01/01/06	577,000	682,000	(105,000)	85%	*	*

\* Not applicable due to no active employees during this period.

## Schedule of Employer Contributions

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2002	\$ 24,200	100
2003	24,200	100
2004	13,184	100
2005	13,184	100

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of January 1, 2006, the latest actuarial valuation, follows:

Actuarial cost method	Aggregate
Amortization method	Level annual funding
Remaining amortization period	10 years
Asset valuation method	Smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	None
Cost of living adjustments	None

## **Other Supplementary Information**

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# Kent County Road Commission

## Other Supplementary Information Schedule of Administrative Expenditures - Road Fund

	Year Ended December 31	
	2005	2004
Personnel costs	\$ 1,065,125	\$ 1,036,613
Depreciation	27,195	50,681
Utilities	174,786	158,600
Information systems	50,342	49,223
Professional services	105,673	84,920
Insurance	83,363	65,286
Advertising	5,827	4,270
Supplies and postage	79,181	69,706
Equipment rental	49,948	46,409
Repairs and maintenance	85,525	87,392
Other	66,195	68,552
Subtotal	1,793,160	1,721,652
Less administrative credits:		
State trunkline overhead recovered	(760,402)	(586,908)
Material handling	(66,121)	(42,917)
Purchase discounts	(31,985)	(8,383)
Total administrative expenditures	<u>\$ 934,652</u>	<u>\$ 1,083,444</u>



# Kent County Road Commission

## Other Supplementary Information Schedule of Distributive Expenditures - Road Fund

	Year Ended December 31	
	2005	2004
Fringe benefits:		
Vacation and holiday	\$ 1,229,445	\$ 1,252,892
Sick leave	390,928	423,193
Payroll taxes	978,024	945,243
Retirement plan expense	782,736	721,235
Hospitalization, dental, and life insurance	2,897,252	2,746,723
Longevity	76,003	77,625
Workers' compensation	326,873	320,885
Unemployment compensation	37,938	16,143
Other	82,568	128,548
Total fringe benefits	6,801,767	6,632,487
Other distributive expenditures:		
Engineering services	885,892	813,554
Maintenance	423,054	397,189
Traffic and safety services	650,636	651,667
Planning and human resources	187,800	250,618
Liability insurance	477,045	399,050
Inventory handling and adjustments	367,709	94,884
Yard and storage facilities	243,354	232,177
Total other distributive expenditures	3,235,490	2,839,139
Total distributive expenditures	10,037,257	9,471,626
Less fringe benefits charged to other distributive expenditures	(696,020)	(695,901)
Less amounts charged for work performed	(2,215,972)	(1,660,043)
Total fringe and other distributive expenditures	<u>\$ 7,125,265</u>	<u>\$ 7,115,682</u>
Charges distributed to:		
Construction:		
Primary	\$ 358,553	\$ 1,180,314
Local	-	515,766
Preservation:		
Primary	596,798	-
Local	463,731	-
Maintenance:		
Primary	1,817,700	1,640,674
Local	2,426,103	2,292,997
Equipment:		
Direct	491,682	464,598
Indirect	415,464	469,086
Operating	84,726	80,079
Administrative	402,823	400,075
Capital outlay	67,685	72,093
Total distributive expenditures	<u>\$ 7,125,265</u>	<u>\$ 7,115,682</u>

# Kent County Road Commission

## Other Supplementary Information Analysis of Changes in Road Fund Balance Year Ended December 31, 2005

	Primary Road	Local Road	County Road Commission	Total
<b>Revenue</b>				
State aid - Act 51	\$ 24,352,925	\$ 5,467,008	\$ -	\$ 29,819,933
State trunkline maintenance	-	-	6,884,095	6,884,095
Federal/State sources	8,959,006	-	-	8,959,006
Revenue from local governments	-	2,822,118	1,897,408	4,719,526
Interest, fees, and other revenue	245,165	105,071	1,358,102	1,708,338
Total revenue	33,557,096	8,394,197	10,139,605	52,090,898
<b>Expenditures</b>				
Current:				
Construction	8,345,418	-	-	8,345,418
Preservation	11,160,076	4,951,802	-	16,111,878
Maintenance	8,559,865	10,325,277	-	18,885,142
State maintenance	-	-	7,614,031	7,614,031
Equipment and capital outlay	(593,008)	(150,423)	975,114	231,683
Administrative	605,212	329,440	-	934,652
Other services	-	-	2,552,030	2,552,030
Total expenditures	28,077,563	15,456,096	11,141,175	54,674,834
<b>Optional Transfers</b>	(6,380,197)	6,380,197	-	-
<b>Excess of Revenue Over (Under) Expenditures</b>	(900,664)	(681,702)	(1,001,570)	(2,583,936)
<b>Fund Balances - Beginning of year</b>	6,149,070	2,635,315	8,784,387	17,568,772
<b>Interfund Adjustment</b>	-	295,729	(295,729)	-
<b>Fund Balances - End of year</b>	<u>\$ 5,248,406</u>	<u>\$ 2,249,342</u>	<u>\$ 7,487,088</u>	<u>\$ 14,984,836</u>